

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Wisconsin Energy Corporation, Integrys Energy)	
Group, Inc., Peoples Energy, LLC, The Peoples Gas)	
Light and Coke Company, North Shore Gas Company)	
ATC Management, Inc., and American Transmission)	
Company, LLC)	
)	14-0496
Application pursuant to Section 7-204 of the Public)	
Utilities Act for authority to engage in a)	
Reorganization, to enter into agreements with)	
affiliated interests pursuant to Section 7-101, and for)	
such other approvals as may be required under the)	
Public Utilities Act to effectuate the Reorganization.)	

Surrebuttal Testimony of

JAMES F. SCHOTT

Executive Vice President and Chief Financial Officer
Integrys Energy Group, Inc.

On Behalf of
Integrys Energy Group, Inc.

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 **Q. Please state your name and business address.**

4 A. My name is James F. Schott. My business address is Integrys Energy Group, Inc.
5 ("Integrys"), 200 East Randolph Street, Chicago, Illinois 60601.

6 **Q. Are you the same James F. Schott who provided direct and rebuttal testimony on**
7 **behalf of Integrys Energy Group, Inc. in this docket?**

8 A. Yes.

9 **B. Purposes of Surrebuttal Testimony**

10 **Q. What are the purposes of your surrebuttal testimony in this proceeding?**

11 A. The purposes of my surrebuttal testimony are to respond to testimony and
12 recommendations related to: (1) the timing of completion of The Peoples Gas Light and
13 Coke Company's ("Peoples Gas") Accelerated Main Replacement Program ("AMRP")¹;
14 (2) reporting requirements related to the AMRP²; (3) Peoples Gas' and North Shore Gas
15 Company's (together, the "Gas Companies") energy efficiency programs, including their
16 on-bill financing ("OBF") programs³; and (4) as it pertains to the Integrys Customer
17 Experience ("ICE") customer information system project, the recent Commission order in
18 the Gas Companies' 2014 rate case (Docket Nos. 14-0224/14-0225 (cons.))⁴.

¹ Rebuttal Testimony of Illinois Commerce Commission ("Commission") Staff witness Eric Lounsberry, ICC Staff Ex. 9.0.

² Rebuttal Testimony of Illinois Attorney General ("AG") witness Sebastian Coppola, AG Ex. 4.0; Rebuttal Testimony of City of Chicago/Citizens Utility Board ("City/CUB") witness William Cheaks Junior, City/CUB Ex. 7.0.

³ Rebuttal Testimony of City/CUB witness Karen Weigert, City/CUB Ex. 6.0 REV.

⁴ Rebuttal Testimony of AG witness David J. Effron, AG Ex. 3.0.

19 **C. Summary of Conclusions**

20 **Q. Please summarize the conclusions of your surrebuttal testimony.**

21 A. The conclusions of my surrebuttal testimony are: (1) Peoples Gas intends to complete the
22 AMRP by 2030, with appropriate cost recovery in place, but it did not commit to that
23 date in its 2009 rate case (Docket Nos. 09-0166/09-0167 (cons.)); (2) as I and Joint
24 Applicants witness David Giesler stated in our rebuttal testimony, Peoples Gas already
25 has comprehensive reporting obligations related to AMRP and there would be little, if
26 any, value of imposing additional reporting in this proceeding; (3) the Gas Companies’
27 energy efficiency programs are fully compliant with applicable statutory requirements;
28 and (4) the Commission’s 2014 rate case order, issued January 21, 2015, addressed ICE
29 project cost recovery.

30 **II. ACCELERATED MAIN REPLACEMENT PROGRAM**

31 **A. Completion of the Accelerated Main Replacement Program**

32 **Q. Staff witness Mr. Lounsberry recommends that the Joint Applicants “reaffirm”**
33 **what he called Peoples Gas’ commitment to complete the AMRP by the end of 2030**
34 **(ICC Staff Ex. 9.0, 6:126-128; 7:172-174; 15:393-395, 402-404). Do you agree with**
35 **Mr. Lounsberry’s description of Peoples Gas’ position in its 2009 rate case (Docket**
36 **Nos. 09-0166/09-0167 (cons.)?**

37 A. No. The starting point for this discussion ought to be Peoples Gas’ 2007 rate case
38 (Docket Nos. 07-0241/07-0242 (cons.)) (“*2007 Rate Cases Order*”) in which Peoples Gas
39 proposed a cost recovery rider, and the Commission concluded the proposal was
40 insufficient for approval. The Commission then described the types of information it
41 sought, stating that “[i]t might have been easier to approve the rider” if the record included

42 this information. *2007 Rate Cases Order* at 162. In the 2009 rate cases, Peoples Gas again
43 proposed a cost recovery rider and addressed the Commission's information request. In
44 other words, from its inception, Peoples Gas' discussion of an accelerated program was
45 linked to appropriate cost recovery.

46 **Q. Is there any significance to a 2030 date?**

47 A. Yes. It was, and remains, Peoples Gas' intention to complete the program, which began
48 in 2011, in 20 years, *i.e.*, by the end of 2030, but appropriate cost recovery was, and
49 remains, linked to that intention. As Joint Applicants witness Allen Leverett confirms in
50 his surrebuttal testimony (Joint Applicants Ex. 15.0), the Joint Applicants have
51 committed to having Peoples Gas continue the AMRP on this basis if the proposed
52 Reorganization is approved. In the 2009 rate case, Peoples Gas' witness Salvatore
53 Marano provided various cost-benefit analyses that the Commission requested in the
54 2007 rate case order. One set of analyses was for an accelerated program, and that set
55 used three different completion years -- 2025, 2030 and 2035. From those alternatives,
56 Mr. Marano concluded that a 2030 completion date was the most feasible, and he used
57 that scenario in further analyses. In the 2009 rate case, Peoples Gas demonstrated that an
58 accelerated program provided benefits, that 2030 was a feasible completion date, and that
59 a cost recovery rider was key to supporting acceleration.

60 As I stated in my direct testimony in the 2009 rate case (Peoples Gas JFS Ex. 1.0
61 REV., 3:48-55):

62 While it is important to continue to improve Peoples Gas'
63 infrastructure and create jobs, it is equally important to ensure that the
64 expenditures for these improvements are financed at a reasonable cost
65 and consistent with the utility's financial condition and capital needs.
66 The expenditures can be financed at a reasonable cost with prompt
67 and fair rate recovery of the expenditures such as would be provided

68 by Rider ICR. If Peoples Gas is unable to finance these expenditures
69 at a reasonable cost, they will create an unnecessary financial burden
70 for future generations of our customers through higher cost of capital.

71 Peoples Gas did not make a commitment to a 2030 completion date, independent of cost
72 recovery, that it can “reaffirm.”

73 **B. Reporting Requirements**

74 **Q. AG witness Mr. Coppola states that “Mr. Schott rejects Mr. Lounsberry’s proposed**
75 **additional reporting requirements” related to the Liberty Consulting Group’s**
76 **investigation of the AMRP (AG Ex. 4.0, 8:119-121). Is he correct?**

77 A. No. The testimony Mr. Coppola referenced begins by stating that the Joint Applicants, in
78 Mr. Leverett’s testimony, accepted Mr. Lounsberry’s recommendation. I then described
79 the substantial amount of additional reports and information that the Commission
80 receives about AMRP.

81 **Q. AG witness Mr. Coppola claims that the information you describe “has limited**
82 **value.” AG Ex. 4.0, 9:129-131. Do you agree?**

83 A. No. First, the reporting I described is required by law, namely the Public Utilities Act or
84 a Commission rule or Rider QIP of Peoples Gas’ Schedule of Rates. The Illinois General
85 Assembly and the Commission apparently concluded that this information had value or it
86 would not be required. Second, I believe the “reams of historical cost information” (AG
87 Ex. 4.0, 9:129) have value to the Commission and others reviewing activity under the
88 AMRP and tracking its progress against previously submitted annual or five-year plans,
89 which seems to be Mr. Coppola’s objective.

90 **Q. Mr. Coppola disagrees that the reports and information that you identified address**
91 **his recommendations. AG Ex. 3.0, 8:116 - 13:232. Similarly, City/CUB witness Mr.**
92 **Cheaks continues to recommend several AMRP-related reporting requirements.**
93 **City/CUB Ex. 7.0, 14:263-264. Please comment.**

94 A. The point of my testimony and the data request responses that Mr. Coppola cited is that
95 Peoples Gas already must provide a great deal of AMRP information to the Commission.
96 The Joint Applicants' agreement to provide the reporting that Mr. Lounsberry requested
97 is an additional way that Peoples Gas will produce AMRP information. I agree that it is
98 not identical to what Mr. Coppola requested, nor what Mr. Cheaks proposed, but I
99 disagree that adding to the quantity of already detailed AMRP reporting should result
100 from this Reorganization proceeding.

101 **Q. Mr. Cheaks states that, to the extent information he requested is provided to the**
102 **Commission or the City, it should be provided to the other. City/CUB Ex. 7.0,**
103 **13:250-251. Please comment.**

104 A. If the Commission or its Staff wants information about the AMRP, it will ask for the
105 information. It does not need a condition in this proceeding to make that happen.
106 Peoples Gas would not presume that everything the City receives or wants to receive is
107 information that the Commission also wishes to receive.

108 **Q. Mr. Cheaks states that the Joint Applicants are mistaken if they think they must**
109 **identify a business need before providing information to regulators. City/CUB Ex.**
110 **7.0, 14:271-273. Is this the Joint Applicants' belief?**

111 A. Of course not. If a regulator requires that a regulated entity track and provide certain
112 information that is under that regulator's authority, then the regulated entity's obligation

113 is not predicated on a business need for that information. On the other hand, when a
114 regulator (or an intervenor in a Commission case) asks for historical information that the
115 utility did not track and had no obligation to maintain, the utility will not be able to
116 produce the information that it had no way of knowing it would be asked to produce; it is
117 my understanding as a non-attorney that the utility has no obligation to try to gather the
118 requested data in the requested form; and the fact that the utility had no business need to
119 track the information is a valid reason for the utility having chosen not to track the
120 information. The Gas Companies cannot guess what information a regulator or
121 intervenor may seek at some point in the future and then maintain that information in a
122 particular way just in case it later receives an information request. Once apprised of a
123 regulator's request, it can, prospectively, track and maintain the information.

124 **III. ENERGY EFFICIENCY PROGRAMS**

125 **Q. City/CUB witness Ms. Weigert reiterates her recommendations that the**
126 **Commission impose several energy efficiency-related conditions on its approval of**
127 **the proposed Reorganization. She states that she is not aware of any Commission**
128 **order prohibiting a utility from engaging in voluntary energy efficiency efforts.**
129 **City/CUB Ex. 6.0 REV, 5:77-78. Please comment.**

130 **A.** Joint Applicants witness Mr. Leverett addresses Ms. Weigert's proposed conditions that
131 call for the Gas Companies to exceed statutory requirements for energy efficiency. The
132 point of my rebuttal testimony was that Illinois has comprehensive statutory requirements
133 for gas utilities to offer energy efficiency programs. Those requirements include caps on
134 the amount that customers must pay to support the programs. The statute (Section 8-104
135 of the Public Utilities Act) does not expressly prohibit other programs, although it could

136 create the situation of a utility's mandated programs "competing" for savings with other
137 utility programs. Given the well-defined regulatory regime for developing programs --
138 including getting Commission approval, working with the Stakeholder Advisory Group,
139 tracking savings, and subjecting those savings to independent review -- mingling other
140 programs with the approved programs seems like it could cause confusion. For example,
141 do savings under the programs developed outside the Section 8-104 process "count" for
142 purposes of calculating savings, and, if not, does the utility risk a financial penalty for
143 failing to meet its statutory and Commission-prescribed savings obligation because the
144 savings are credited to the other programs? Is cost recovery for the other programs
145 contrary to Section 8-104? Ms. Weigert's proposal that these other programs would be
146 funded through "a shareholder contribution," in Ms. Weigert's words (City/CUB Ex. 6.0
147 REV, 6:106-107), is not contemplated by Section 8-104. Rather, Section 8-104 is the
148 means through which the State of Illinois chose to direct gas utilities to participate in
149 energy efficiency programs. The Gas Companies are fully compliant with these
150 requirements. Ms. Weigert has not claimed otherwise.

151 **Q. City/CUB witness Ms. Weigert cited the Commission's approval of the**
152 **reorganization that created Integrys (Docket No. 06-0540⁵) and the Gas Companies'**
153 **agreement to implement an energy efficiency program. City/CUB Ex. 6.0 REV, 4:70**
154 **- 5:74.? Was that commitment comparable to what Ms. Weigert is proposing in this**
155 **proceeding?**

156 **A.** No. Notably, neither Section 8-104 nor any other state-mandated energy efficiency
157 programs existed at that time. In Docket No. 06-0540, the Gas Companies agreed to

⁵ *WPS Resources Corporation et al.*, Docket No. 06-0540 (Order, Feb. 7, 2007) ("06-0540 Order").

propose, in their next rate cases, energy efficiency programs, including a proposed cost recovery mechanism. 06-0540 Order, Appendix A, Condition of Approval 27. Condition of Approval 27 specifically stated, in part, that “[t]he Gas Companies are not obligated to fund energy efficiency programs beyond the amount for which the Commission approves cost recovery in the rate case orders.” The rider recovery mechanism resulting from that condition terminated the programs when the state program came into existence. Ms. Weigert’s proposal for nonrecoverable funding to offer programs that are in addition to existing programs is not comparable to the Integrys agreement in Docket No. 06-0540.

Q. Ms. Weigert continues to discuss an automated solution to assist regulated entities’ compliance with the City’s Benchmarking Ordinance. City/CUB Ex. 6.0 REV, 9:170 - 10:187. Please comment.

A. As stated in my rebuttal testimony, Peoples Gas continues to explore ways to assist building owners/managers to comply with the Benchmarking Ordinance. To be clear, however, it is the business owners/managers who have obligations under this ordinance. Peoples Gas has and will continue to work to facilitate their compliance.

Q. Mr. Weigert questions whether Joint Applicants may change the credit score that the on-bill financing (“OBF”) entity uses to assess eligibility. City/CUB Ex. 6.0 REV, 8:137 - 140. Please comment.

A. The credit score that the financier applies when it assesses loan requests is stated in the contract. I am unfamiliar with the Ameren pilot that Ms. Weigert mentions and cannot opine on whether that example is relevant to the credit score issue. Assuming, for the purpose of this testimony, that credit terms more favorable to customers could be

181 negotiated, I note that the financier has a statutory obligation in this regard (“The lender
182 shall conduct credit checks or undertake other appropriate measures to limit credit risk,
183”⁶). I also note that gas utilities must remit payment in full to the lenders and non-
184 payment by customers may be recovered through the utilities’ uncollectible expense
185 riders.⁷ Any changes to the OBF loan terms and conditions should take these factors into
186 account. Simply terminating the agreement (the contract right that Ms. Weigert cited
187 (City/CUB Ex. 6.0 REV, 8:131-133)) does not assure that a new entity will negotiate
188 better terms.

189 **IV. INTEGRYS CUSTOMER EXPERIENCE PROJECT**

190 **Q. In his testimony about the ICE project, Mr. Effron references the Gas Companies’**
191 **2014 rate case (Docket Nos. 14-0224/14-0225 (cons.)). AG Ex. 3.0, 8:162-164. What**
192 **is the status of that case?**

193 A. The Commission issued a final order on January 21, 2015, and an amendatory order on
194 January 28, 2015. In the final order, the Commission addressed the ICE project,
195 including Mr. Effron’s testimony, concerning 2015 test year costs. The Commission
196 concluded that the record in the rate case supported the Gas Companies’ and the Staff’s
197 positions and rejected Mr. Effron’s arguments. The amendatory order did not address the
198 ICE project.

199 **Q. Does this conclude your surrebuttal testimony?**

200 A. Yes.

⁶ 220 ILCS 5/19-140(c)(4)

⁷ 220 ILCS 5/19-140(c)(6)